

FISCAL NOTE

SB 2274 - HB 2376

February 17, 2004

SUMMARY OF BILL: Requires all nursing homes to have a sprinkler system in place by July 1, 2005. The system must conform to the building and fire safety codes applicable to newly constructed facilities. This bill would also require that all nursing homes have a fire alarm system approved by the Board for Licensing Health Care Facilities.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - \$44,500 FY05

Increase State Expenditures - \$150,800 FY06

Other Fiscal Impact - Increase Federal Expenditures - \$268,000 FY 06

For Information Purposes - FY06 costs represent TennCare expense for the first year amortization of the cost for sprinkler systems reimbursed over 25 years. The total impact to the state over the 25-year period is \$10,469,000 (\$3,769,000 state and \$6,700,000 federal).

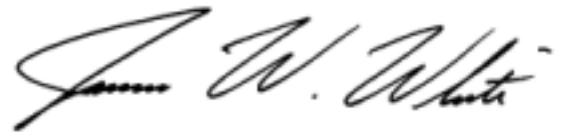
Estimate assumes:

- the Department of Health, Bureau for Licensing Health Care Facilities, will review facility plans for construction of sprinkler systems and collect fees for plan reviews in FY05.
- the bill will affect 83 nursing homes that currently either do not have a sprinkler system or only a partial system.
- that all current nursing homes have fire alarm systems as required in the bill.
- the cost of installation of sprinkler systems is dependent on the type and size of the building and the current alarm system. Total cost also depends on the expense of hookup to a local water utility or to build a water storage system when local system pressure is inadequate.
- estimated cost of implementing a sprinkler system in each facility is approximately \$7 per square foot for 2.1 million square feet in all facilities without sprinklers.

- TennCare reimbursement will pay approximately 72% of all costs representing the share of Medicaid reimbursement in all nursing homes.
- according to the Comptroller of the Treasury, federal Medicaid rules currently require that capital costs be amortized over a 25-year period for sprinkler systems.
- currently, TennCare reimburses nursing homes subject to a maximum rate on facility expenditures. Approximately 50% of all nursing homes are above the cap and do not receive full reimbursement. TennCare will change the state plan to reimburse 100% of the capital costs required by this bill even for facilities above the cap. Such a change is subject to approval by the Center for Medicare and Medicaid Services.
- reimbursement for nursing homes is based upon audited expenditures from the prior year. Reimbursement for the construction costs required by this bill will begin in FY06 based upon expenditures for FY05.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a larger, more prominent script than the last name "White".

James W. White, Executive Director